TESTIMONY OF ROBERT GREENSTEIN
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I appreciate the opportunity to appear before the Senate Budget Committee. I am Robert Greenstein, executive director of Center on Budget and Policy Priorities. The Center is a policy institute that focuses on fiscal policy issues and has a particular interest in the effects of government policies on low- and moderate-income families.

The subject of this testimony is the state of the projected budget surplus following approval of the Congressional budget resolution and enactment of the recent tax-reduction legislation.

Overview

Congress has repeatedly expressed its intention to "wall off" the surpluses in the Social Security and Medicare Hospital Insurance trust funds. Taking into account the recently signed tax cut law with an official cost of $1.35 trillion over 11 years, along with the other initiatives in the Congressional budget resolution (for a prescription drug benefit, payments to agricultural producers, efforts to reduce the number of uninsured, etc.), the remaining surplus outside the Social Security and Medicare Hospital Insurance trust funds appears to be about $500 billion between 2002 and 2011. This does not mean, however, that $500 billion remains available for further tax cuts or program expansions. The estimate that $500 billion remains is based on a number of unrealistic assumptions, including the following.

- The figure assumes that the $1.35 trillion package of tax cuts, as signed by the President, will actually expire on December 31, 2010, and several other provisions of the new law — including a measure providing relief from the Alternative Minimum Tax — will expire between 2004 and 2006. It is unrealistic, however, to assume the wholesale expiration of the tax cuts after 2010 or termination of AMT relief after 2004.

- The figure assumes there will be no extension of the various expiring tax credits, such as the research and experimentation tax credit. Of course, these tax credits are virtually certain to be extended.

- The figure assumes appropriations for non-defense programs over the next decade will be strictly limited to the level assumed in the budget resolution, which is $45 billion *below* what is needed for these programs simply to keep pace with inflation (i.e., $45 billion below the CBO baseline) and much farther below what is needed for these programs to remain constant in real per-capita terms (i.e., for the appropriation levels for these programs to keep up with inflation and changes in the size of the U.S. population). Past experience strongly indicates that the

Table 1

CBO's April Projection, Adjusted for Enacted Tax Cuts
(Ten-year total, 2002-2011, in trillions of dollars)

Total budget surplus in CBO's April projection	$ 5.6
less: Social Security surplus	2.5
less: Medicare HI surplus	0.4
"Available" surplus (excluding Social Security and Medicare HI surpluses)	2.7
Enacted tax cut:	
Official Joint Tax Committee cost estimate	-1.3
Resulting increase in interest costs	-0.5
Cost of enacted tax cut, including interest	-1.7
Other items in the budget resolution:	
Program initiatives (prescription drugs and others)	-0.5
Resulting increase in interest costs	-0.1
Cost of the other items in the budget resolution	-0.6
"Available" surplus (excluding Social Security and Medicare HI surpluses) after enacted tax cuts and initiatives in the budget resolution	0.5

Note: May not add due to rounding.

level which the budget resolution assumes for non-defense appropriations is unrealistic and unattainable.

- The bipartisan interest in boosting funding for education, health research, and other areas makes it even more unlikely that this level will be met.

The $500-billion-remaining-surplus estimate also fails to include any allowance for natural disasters such as floods and hurricanes or for the defense spending increases the Administration has requested this week and will request in future years.

When the budget resolution figures are adjusted to reflect more realistic assumptions — such as an assumption that the research and experimentation credit and the other tax "extenders" will be renewed — very little surplus remains after 2002 outside the Social Security and Medicare Hospital Insurance trust funds. In fiscal year 2003-2006, no such surplus remains.

Current Budget Projections and the Tax Cut

In April, the Congressional Budget Office (CBO) released revised ten-year budget projections showing a unified budget surplus of $5.6 trillion over the ten-year period from 2002 through 2011. The surplus outside the Social Security and Medicare Hospital Insurance trust funds, which we refer to here as the "available surplus," is smaller — $2.7 trillion over the decade.

These CBO projections do not account for the newly enacted tax cuts. According to the official estimate of the Joint Committee on Taxation (JCT), the tax cuts cost $1.275 trillion over the ten-year period from 2002 through 2011 (and the more familiar figure of $1.350 trillion when the costs in 2001 are included). CBO's projected surplus will be reduced by that amount. The surplus also will be reduced to reflect the increased interest payments on the debt that will be paid as a result of the tax cuts. (Enactment of the tax legislation means that surpluses will be smaller and the debt larger than CBO projected in April; therefore, over the next decade, interest on the debt will be higher than CBO projected in April.) Using CBO's standard methodology for estimating interest costs, the increased interest payments on the debt will total $383 billion over the next ten years. The available, ten-year surplus is consequently reduced from $2.7 trillion to $1.1 trillion as a result of the tax cut.

The Congressional Budget Resolution

The Congressional budget resolution calls for some additional expenditures, including $300 billion over ten years for a prescription drug benefit and "Medicare reform." Table 2 lists the major costs assumed in the Congressional budget plan, beyond the tax cut.

If Congress approves the expenditures called for in the budget resolution, the available surplus will be reduced to approximately $500 billion over ten years, as Table 1 shows. This is the $500 billion figure sometimes cited as reflecting the amount remaining for further tax cuts, defense spending increases, and various domestic spending items.

Taking Into Account More Realistic Assumptions

This $500 billion figure, however, can not be taken at face value. First, more than 40 percent of it occurs in 2011 and is largely an artificial result of the scheduled expiration of the tax cuts after 2010. As Table 3 shows, only $287 billion remains in 2002-2010. Second, these figures overstate the remaining surplus because the tax bill and the Congressional budget resolution omit the costs of various "must pass" items and other measures that are very likely or virtually certain to become law.

Let's consider one area where "must pass" legislation is not taken into account — the extension of the expiring tax credits popularly known as the "extenders." These tax credits are scheduled to expire every few years and always are extended on a bipartisan basis. One such credit is the research and experimentation tax credit, currently authorized through 2004.

Table 2

Additional Costs Included in the Congressional Budget Plan (Ten-year total, 2002-2011, in billions of dollars)	
Entitlement benefits, mandatory spending, and miscellaneous receipts:	
Prescription drugs / Medicare "reform"	300
Agriculture and natural resources	74
Health insurance programs, net	57
Other mandatory spending and revenues (including SEC fees)	48
Appropriated programs:	
Defense	35
Non-defense	-45
Net spending increases in the budget plan	469
Resulting increase in interest costs	121
Total additional costs	590

Notes: May not add due to rounding. The health program changes shown above encompass the Family Care and Family Opportunity expansions of Medicaid/SCHIP, expenditure increases for health insurance coverage generally, increases for Medicare home health payments, and a tightening of the "upper payment limitation" regulations in Medicaid to prevent unwarranted payments to states.

President Bush's budget proposed to make this credit permanent, a move that enjoys overwhelming bipartisan support. Congress left that proposal out of the tax bill, knowing that extension of the credit will be enacted as part of a subsequent piece of tax legislation. Congress evidently intends to extend the other expiring tax credits as well. Extending these credits will cost $78 billion over ten years.

Table 4 shows the size of the available surplus when the cost of extending the expiring tax credits is taken into account. Over the ten-year period through 2011, about $400 billion appears to be available. But only about $200 billion remains in the 2002-2009 period. And *over the four-year period from 2003 to 2006, the surplus is entirely gone*; there is no room beyond the budget resolution and the continuation of the expiring tax credits. (There would have been no room beyond the budget resolution in 2002 either had the conferees on the tax bill not used a gimmick to shift $33 billion in existing corporate revenues from the last few days of 2001 to the first few days of 2002.)

In addition, it seems likely that when CBO updates its forecast in August, it will lower its surplus estimates for at least the next few years. If so, the surplus that appears to be available in 2002 will be smaller, and the figures for 2003-2006 could deteriorate as well.

Table 3

The Surplus After Tax Cuts and the Congressional Budget Plan
(in billions of dollars)

		2002	9-year total through 2010	10-year total through 2011
Available surpluses after the tax bill		53	779	1,087
less:	Cost of remaining policies in Congressional budget plan (from Table 2)	-21	-401	-469
	Resulting increase in interest costs	-1	-91	-121
Remaining available surplus (excluding Social Security and Medicare HI)		31	287	497

Notes: May not add due to rounding. This table assumes that the $28 billion in "Family Care" funds in the budget plan are expended over more than the first three years of the budget period.

What Else Has Been Left Out of these Estimates?

Table 4 indicates that claims of significant remaining surpluses are largely a mirage after 2002 if Congress intends to abide by its promise to avoid deficits in any year outside the Social Security and Medicare Hospital Insurance trust funds. There is little or no money left. Yet the figures in Table 4 do not provide a full picture of the coming budget squeeze, as they do not include any of the following likely costs.

- ***Defense* —** The budget resolution contains slightly less for defense than the Bush budget as submitted in April, but Secretary Rumsfeld is about to increase the Administration's FY 2002 request by $18 billion. Additional requests will be forthcoming for subsequent fiscal years. A conservative estimate is that these requests may total between $200 and $400 billion over ten years above the figures in the budget resolution.

- ***Non-defense appropriations.*** The budget resolution proposes to *cut* non-defense discretionary programs. Expenditures for these programs would be reduced by $45 billion over ten years below the CBO baseline (i.e., below the levels needed to keep pace with inflation). If, within that constrained total, favored areas such as education and health research are to be increased, the reductions in other areas must be deeper. History suggests such reductions are very unlikely to be made, especially since neither the President nor the Congressional leadership has made a public case for such budget cuts. To the contrary, the public rhetoric has been that there is plenty to meet all needs.

  A more prudent and realistic assumption is that appropriations for non-defense discretionary programs will grow with inflation and the U.S. population — that is, that

Table 4

The Incredible Shrinking Surplus
dollars in billions

		Ten-year total (2002-2011)
Available surplus after the tax bill and the budget resolution		**497**
less::	continuation of research and experimentation credit and other "extenders"	78
	resulting increase in interest costs	15
Remaining surplus		**404**

remaining in 2002	remaining in 2003-2006	remaining in 2007-2010	remaining in 2011	Ten-year total (2002-2011)
31	**-3**	**185**	**192**	**404**

Notes: May not add due to rounding. This analysis assumes that the $28 billion contained in the budget resolution for health insurance initiatives will be spread over seven years rather than being concentrated entirely in 2002-2004.

the real per-capita level of funding for this part of the budget will remain constant. This will entail $200 billion more in expenditures over ten years than the level assumed in the budget resolution. (If appropriations keep pace only with inflation but not with population growth, the purchasing power of the resources available for non-defense appropriated programs will shrink on a per-person basis. If applied to funding for education, for example, this would mean that as the student population increased, each student or classroom would have less real resources.) Adjusting for inflation and population is the same standard that President Bush used during the presidential campaign and that the Bush White House has used in recent months in describing changes in state spending in Texas during Mr. Bush's tenure as governor.[1]

> History indicates that Congress will at least keep funding for non-defense discretionary programs constant in real per-capita terms (i.e., even with inflation and population growth). Over the past 15 years, appropriations for non-defense discretionary programs have risen at a faster average rate than this; during these years, expenditures for non-defense discretionary programs have remained

[1] For example, the George W. Bush for President official web site states: "When adjusted for inflation and population, state spending will increase by only 3.6 percent between 1994-1995 and the end of the 2000-2001 biennium." Similarly, the *Dallas Morning News* reported: "Wednesday, [Governor Bush] said an 'honest comparison' of spending growth should take inflation and the state's increasing population into account" (October 28, 1999).

constant as a share of the U.S. economy, a rate of growth that is consistent with the Congressional Budget Office's long-term forecast of the path of non-defense discretionary spending.

The assumption we use here — that non-defense discretionary spending will stay even in real per-capita terms (i.e., remain at today's level, adjusted for inflation and population growth) — is a conservative assumption; under it, spending on these programs would fall from 3.4 percent of GDP to 3.0 percent of GDP by 2011, which would be the lowest level on record. Expenditures for these programs has been a fairly constant 3.4 percent of GDP over the past 15 years, even though most of that period was one of substantial deficits. Since Congress kept these programs constant as a share of the economy during periods of deficits (meaning that during those years, Congress increased funding for these programs in real per-capita terms), the assumption that non-defense programs will simply keep pace with inflation and population in coming years and thus will fall as a percentage of GDP is surely a cautious one. It is not realistic to assume these programs will be cut in real per-capita terms in times of surpluses.

- ***Natural Disasters —*** The President's budget sensibly included an allowance of approximately $55 billion over ten years for natural disasters (e.g., floods, hurricanes, and earthquakes) to reflect the historical average level of expenditures on natural disasters. The congressional budget resolution removed the allowance. These costs, however, will still be incurred.

- ***The Alternative Minimum Tax (AMT) and Other Sunsets in the Tax Bill —*** The tax bill will push as many as 20 million additional taxpayers under the AMT. As a result, some or all of the tax cuts that many taxpayers think they have been given will be taken back by the operation of the AMT. Some of these taxpayers are middle class, though many are quite well off. The tax bill contains a section that provides relief from this phenomenon, but that provision sunsets after 2004.

  Likewise, the tax bill contains two new tax breaks that sunset in 2005 or 2006. And every remaining provision of the tax cut sunsets in 2010. The Joint Tax Committee estimates that reversing these sunsets (and providing sufficient AMT relief so the new tax law does not subject additional taxpayers to the AMT) would cost $386 billion over ten years. (It may also be noted that extending the entire tax bill beyond its scheduled expiration would cost $4.1 trillion in the second decade of this century, even before interest costs are taken into account.)

- ***Prescription Drugs —*** The budget resolution reserves $300 billion in 2004-2011 for the cost of a prescription drug package. This amount would cover a limited set of

Prescription Drugs and the Hospital Insurance Trust Fund

Some Members of Congress have suggested that "walling off" Social Security and Medicare HI nonetheless permits a prescription drug benefit to be financed out of the HI surplus. The argument is that Congress intended to "reserve Medicare for Medicare" and that using the Medicare HI surplus to finance a prescription drug benefit does not violate that intention.

This argument sounds sensible at first blush. But there are only two ways in which the HI surplus could finance a prescription drug benefit. Under the first method, prescription drugs would be considered a cost of Medicare Part A (i.e., part of Medicare Hospital Insurance). Because this approach would use the HI surplus to pay for a drug benefit, it would shrink the HI surplus and cause the Medicare Hospital Insurance trust fund to become insolvent much sooner than it otherwise would.

Under the second approach, prescription drugs would be financed from the general fund, and Congress would allow a deficit in the general fund up to the cost of the prescription drug benefit. Under this approach, the solvency of the HI trust fund would not be diminished; instead, the surplus in the HI trust fund would be lent to the Treasury to cover the deficit caused by the prescription drug benefit. Under this approach, the Medicare HI surplus would no longer be used solely to reduce debt; the bulk of the surplus would be used instead to help fund the rest of government, which would be in deficit because of the new prescription drug benefit.

benefits. For example, CBO has estimated that Senator Graham's prescription drug benefit proposal, which requires beneficiaries to pay half the premiums ($55 per month) and about half the cost of purchasing prescription drugs, would cost $318 billion over ten years.[2] Many analysts, such as Robert Reischauer, former director of CBO and now president of the Urban Institute, have questioned whether Congress ultimately will be able to provide a drug benefit the public finds adequate for $300 billion over ten years. The *initial* prescription drug legislation may be designed to cost about $300 billion, but benefits may be enriched in subsequent years when the public sees how limited a drug benefit the initial legislation provides.

- Finally, there are a number of other significant needs that policymakers and the public may wish to address, such as further steps to reduce the number of Americans wholack health insurance, efforts to reduce child poverty, and action to restore long-term solvency to Social Security and Medicare (see box on page 9).

[2] The Graham bill also includes a $250 annual deductible. It reduces beneficiary cost-sharing from 50 percent to 25 percent once a beneficiary incurs $3,500 in out-of-pocket costs (except for premiums) in a year. In addition, the government pays 100 percent of prescription drug costs once a beneficiary has paid $4,000 in out-of-pocket costs in any year.

Social Security and Medicare Reform

An omission from the Congressional budget resolution is any plan to deal with the long-term financing problems that beset the Social Security and Medicare Hospital Insurance trust funds. As is well known, these trust funds are accumulating assets now that will be drawn down when the baby-boom generation retires, and the trust funds eventually will become insolvent if nothing is done to prevent that from occurring.

The payroll tax increases and Social Security and Medicare benefit cuts that will be needed to bring these trust funds into long-term balance if no additional resources are provided to these programs are unacceptably large from a political standpoint. They cannot pass. This is why nearly every plan in recent years to restore long-term Social Security solvency has relied in part on transferring some of the surpluses projected in the non-Social Security budget to the Social Security Trust Fund. (It also is why no member of either party has advanced a plan that would fully restore long-term Medicare solvency.)

President Clinton proposed transfers of non-Social Security surpluses to Social Security. So did the Social Security plan put forward in the last Congress by then-Ways and Means Committee chairman Bill Archer and Social Security subcommittee chairman Clay Shaw. The plans proposed by Reps. Jim Kolbe and Charles Stenholm in the House and Senators Gregg, Breaux, Grassley, and others in the Senate also include such transfers.

Restoration of long-term solvency to these trust funds is likely to prove politically impossible without additional resources from the rest of the budget; otherwise, the magnitude of the Social Security and Medicare benefit cuts or payroll tax increases needed to restore long-term solvency will almost surely doom any solvency plan. Prudent budgeting consequently entails making an allowance for these transfers. The Congressional budget resolution makes no such allowance.

As Table 5 shows, the costs of the measures on the foregoing list could reach $200 billion or more in the period 2003-2006, a period in which there currently appears to be no room left. These measures could cost close to $2 trillion over the ten-year period. In short, the surplus that remains after the tax cut is insufficient to meet the demands that will be placed on the federal budget either in the short run or the long run.

Addressing this Dilemma

Unless Congress wishes to borrow from the Medicare Hospital Insurance or Social Security trust funds, hardly any of the available surplus will remain after 2002 to address this range of defense and domestic needs. This strongly suggests that the first step policymakers ought to take is to adopt — and to adhere to — a policy of holding the cost of the tax cuts to the $1.35 trillion over 11 years the budget resolution provided for tax reductions.

Table 5

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This means any new tax cuts — including repeal of the various sunsets in the new tax law — should be paid for by scaling back provisions of the tax law that have not yet taken effect (particularly provisions heavily tilted toward those at the top of the income scale), by other revenue-raising measures such as closing unproductive tax breaks, or by a combination of these approaches. (An exemption might be considered for extension of the research and experimentation tax cut and other expiring tax credits not included in the new tax law.) The basic principle here is that set forth in a recent *New York Times* editorial: further tax cuts that exceed the amount Congress allotted for tax cuts in the Congressional budget resolution should be paid for either by scaling back the new tax-cut law or providing offsetting revenues in other ways.

Even with such a step, exceedingly difficult choices would remain. Large defense increases, adequate funding for non-defense discretionary programs, funding to help restore Social Security solvency, a more adequate prescription drug benefit, and other important domestic and international needs will compete for the very limited resources that will remain. To address this problem, Congress likely will have to use part of the Social Security and Medicare surpluses, raise further revenues (or scale back other elements of the tax cut before they take effect), or cut popular programs. I would note that without additional resources, it may be impossible to enact measures to restore long-term Social Security or Medicare solvency.

The history of the early 1980s may prove to be instructive here. In 1981, Congress and a new President passed a tax cut too large for the budget realities of the time. Congress and the Administration subsequently found that they needed to revisit that tax cut in two of the next three years and ultimately reduced its size about 30 percent.[3]

[3] Since the income tax code was not indexed for inflation at the time the Reagan tax cut was enacted, a portion of that tax cut simply offset the effect that future inflation otherwise would have had in raising taxes. The tax increases enacted in 1982-1984 offset an even larger share (i.e., more than 30 percent) of the portion of the Reagan tax cut that reduced taxes as a share of people's incomes rather than simply offsetting the effects of inflation.

Appendix

HOW REALISTIC ARE THE NON-DEFENSE DISCRETIONARY FUNDING LEVELS IN THE PRESIDENT'S BUDGET AND THE BUDGET RESOLUTION?

The Administration's budget is often said to include a four-percent increase in fiscal year 2002 in funding for discretionary programs. Sometimes this is assumed to mean that *non-defense* discretionary programs are slated for a four-percent increase. That is not the case; the claimed four-percent increase does not apply to non-defense discretionary programs. Funding for these programs would rise only 1.1 percent in fiscal year 2002; and after adjusting for inflation, funding for these programs would *fall* 1.6 percent. After adjusting for inflation and population growth, the decline would be 2.5 percent. The funding level assumed for non-defense discretionary programs in the Congressional budget resolution is modestly, but not substantially, higher. Neither the level in the President's budget nor the level in the budget resolution seems realistic.

Avoiding Distortions in Measuring the Change Proposed in Funding For Non-defense Discretionary Programs

The first step in measuring the change proposed in funding for these programs is to avoid distortions that mar such a comparison. The often-cited four-percent-increase figure, which is supposed to apply to discretionary funding as a whole rather than to non-defense discretionary funding in particular, is derived through a methodology that contains several significant distortions. Some of these distortions make the proposed increases in funding for discretionary programs look larger than they actually are; other distortions make the proposed increases look smaller than they are.

- The figures used to generate the four-percent-increase figure rely on inconsistent treatment in 2001 and 2002 of funding for relief from natural disasters. As of today, the level of funding in 2001 for relief from natural disasters is low; this is both because the current fiscal year has yet to be completed and because this year has been relatively free so far of major disasters. The President's budget for 2002 proposes a reserve fund for natural disasters, which would include an amount equal to the average annual level of spending on disasters in past years. These funds would not be able to be used unless disasters actually occurred. The figures used to generate the four-percent-increase figure compare the limited amount used for disasters so far in 2001 to the full amount that would be placed in the reserve for fiscal year 2002, under the President's budget, with the supposed increment in funding counted as an increase the Administration is proposing in discretionary funding. It is, of course, nothing of the sort; if more disasters occur in 2001, Congress will provide the requisite funds, and if no disasters occur in 2002, none of the funds in the proposed reserve could be used.

Accordingly, to conduct a valid comparison of discretionary funding levels for 2001 and 2002, funding in both years for natural disasters needs to be set to the side.

- A second problem is raised by the fact that the amount the last Congress appropriated for discretionary programs for 2001 is artificially low because that Congress used "timing shift" gimmicks. Under these gimmicks, some of the funding that would normally have been recorded as being provided for certain programs in 2001 (but not spent until 2002) was instead recorded as being provided for 2002, through the mechanism of "advance appropriations." The sole function that this maneuver served was to make 2001 funding look smaller *on paper* than it actually is. As a result of this gimmick, increases in 2002 in the Administration's budget in several program areas appear larger than they actually are, because a proposed 2002 funding level is compared to an artificially low 2001 funding level.

  The President's February 28 budget document itself contains a discussion that explains that a major distortion of this nature occurs in education funding. According to that document, the President's budget "provides a $4.6 billion, or 11.5 percent, increase in total budget authority for the Department of Education." But when the budget "corrects for the distortion of advance appropriations, [it] provides a $2.5 billion, or 5.9 percent increase, for Education Department programs..."[4]

  To produce analyses of year-to-year changes in funding levels that are not distorted by such gimmicks (and for other reasons), the Congressional Budget Office produces an estimate of what the level of discretionary funding would be in 2002 if all appropriations bills were "frozen" at their 2001 level, with the gimmicks removed. As budget analysts recognize, the appropriate way to analyze the dimensions of proposed increases in discretionary funding for 2002 is to compare the levels proposed for 2002 to this CBO "freeze baseline."

- There also is one area where the figures used to generate the four-percent-increase figure *understate* the Administration's proposed funding increases. The area of understatement is in transportation programs. The understatement occurs because the figures that underlie the four-percent calculation do not include programs funded from the transportation trust funds, even though these are discretionary programs controlled through the annual appropriations process. These programs should be included. Since the President has proposed increases in these programs, failing to include the programs

[4] *A Blueprint for New Beginnings*, Office of Management and Budget, February 28, 2001, page 103.

results in an understatement of the increase in discretionary programs the President is seeking.[5]

The Results

When these distortions and omissions are corrected, an appropriate comparison can be conducted, using CBO's freeze baseline. Such an analysis produces the following findings:

- The President's budget includes an overall discretionary funding increase of 5.3% for FY 2002, when the new defense increase is included. But the proposed increase for non-defense discretionary programs is 1.1%.

- If one adjusts for inflation (to account for the fact that as prices increase, the same level of funding will provide a lower amount of services), non-defense discretionary programs face *cuts* of 1.6% under the President's budget.

- It is appropriate also to account for population growth, as the number of people using these services is likely to increase as the population grows. This final adjustment shows that funding for non-defense discretionary programs would be reduced 2.5% relative to the 2001 funding levels. In other words, funding for non-defense discretionary programs would be reduced 2.5% in real, per-capita terms.

The non-defense discretionary funding levels agreed to in the Congressional budget resolution are modestly higher. Under the budget resolution, funding for non-defense discretionary programs would rise 2.8% before inflation is taken into account. After accounting for inflation, these programs are left with no increase over FY 2001 levels. After accounting for population growth as well as inflation, these programs would face a 0.9% funding reduction.

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[5] A final adjustment is needed to remove distortions in funding patters for low-income housing programs. A portion of housing assistance is financed by multi-year contracts that were funded in their entirety many years ago when the contract periods began. The funding for these contracts was recorded in past years. As a result, the funding levels for assisted housing are understated for both 2001 and 2002. Unfortunately, the degree of understatement is not the same in both years, and this produces distortions in measuring changes in discretionary funding. An appropriate comparison of changes in funding levels for discretionary programs entails removing this distortion, which is done by comparing the proposed funding level for housing assistance in 2002 to the funding level that would be needed in 2002 to freeze the number of assisted housing units at the 2001 level, assuming no inflation in the cost of housing.

Funding Increases or Decreases for Non-Defense Discretionary Programs
percentage change from 2001 to 2002

	In dollar terms	Adjusting for inflation	Adjusting for inflation and population
President's Budget	1.1%	-1.6%	-2.5%
Congressional Budget Resolution	2.8%	0.0%	-0.9%

Even these figures make these levels sound more realistic and attainable than they are likely to be, since these figures represent an *average* across all non-defense discretionary programs. Within these averages, certain program areas would see increases. Others consequently would experience significant decreases.

Under the President's budget, for example, areas that would see increases include Congressional operations (an increase of 17.1%), health research and training (11.1%), expenses for the White House and supporting agencies (8.1%), international affairs (5.4%), education (5.3%), and veterans benefits and services (4.5%). (Note that none of these figures are adjusted for inflation or population growth.) But to provide these increases while keeping overall non-defense discretionary funding within the proposed aggregate levels, the increases must be offset by substantial reductions in other non-defense discretionary programs. Some of the budget areas that would see funding decreases under the President's budget are energy (-12.5%), community and regional development (-7.8%), natural resources and environment (-5.6%), low-income housing (-3.3%), administration of justice (-1.5%), and training, employment, and social services (-1.2%). Moreover, since these figures represent changes in funding *before* taking inflation or population growth into account, the actual decreases in services in these program areas would be considerably larger than these figures imply. Decreases of this nature do not seem realistic, especially in a time of budget surpluses.